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CANADA

AND

THE GRAND TRUNK

STATEMENT OF THE MUTUAL UNDER-
TAKINGS INVOLVED

MATERIAL ERRORS CORRECTED

(ISSUED BY THE DEPARTMENT OF RAILWAYS AND CANALS)



OTTAWA

F. A. ACLAND

PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

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CANADA AND THE GRAND TRUNK

A BRIEF SUMMARY OF THE CASE

CORRECTION OF SOME MATERIAL ERRORS

English people who are keenly interested in the question of the relations of the Government of Canada to the Grand Trunk Railway Company, its subsidiaries and shareholders, are requested to read carefully the statements set forth in this pamphlet. Readers who feel interested in the question generally, but are unable to examine it in detail, will find the material facts in this preliminary general statement.

The Englishman, as a rule, is what is called "a good sport." In his business enterprises generally he is of course glad to receive the profits when they come to him. When his ventures result in losses, he is usually prepared to accept them with the best possible grace. If he backs the wrong horse on Derby Day, he pays up cheerfully and hopes for better luck next time. He is usually a good loser. But, strange to say, there are some cases which are striking exceptions to the rule. If the lure of the stock exchange has attracted him; if in a speculative mood he has bought some shares in a Canadian railway enterprise and the shares are substantially depreciated in value, the notion occurs to him that somebody should make good his losses; when the suggestion is offered that the Government of Canada should do so he quickly seizes upon the idea, and a friendly press, of course not well informed in the facts, too readily takes up his case. If the Canadian Government reply that wherever there is an obligation on the part of Canada it will be honoured, that is not deemed a satisfactory answer. The demand is made that the Canadian Government shall accept responsibility where there is no obligation whatever, and for declining to assent to his view the Government are roundly abused. It is only necessary to put the facts before the British reader to have him give a fair judgment upon them.

One of the first errors on which the claimants base their case is that the Grand Trunk Railway Company were compelled by the Canadian Government to enter into the contract for the construction of the subsidiary enterprise, known as the Grand Trunk Pacific Railway. This, of course, is entirely unfounded. The directors and managers of the Grand Trunk Railway Company of Canada were not children. They were grown men, most of them able men. The Manager, Mr. Charles M. Hays, was one of the ablest railway men in America. They came to the Canadian Government to discuss the question of western extension. They asked for Government assistance. Naturally the Government had the right to state the terms upon which they were willing to assist. The attitude of the Canadian Government may be put as follows: "The time has

arrived when we think Canada should have a second transcontinental railway. The existing transcontinental line, while in many respects an excellent one, and doing much for the development of Canada, has a weak point. It is not an all-British line. It goes through a section of the United States. In event of any international difficulties, the railroad would not be entirely under Canadian control. If we are to have a second road, we wish it to be an all-British line, extending from the Atlantic to the Pacific. Its western terminus should be on the Pacific Ocean, its eastern point should be at a junction with existing Government railways at Moncton, New Brunswick, a convenient centre in the Maritime Provinces."

The Government were willing to consider a scheme of that kind. The Grand Trunk representatives thereupon declared that they were ready to make a contract for the line suggested. To say that they were *compelled* to make the contract is childish. As already pointed out, the Grand Trunk directors were able men in the railway and financial world. Mr. Charles M. Hays, the General Manager, who had the chief part in negotiating the contract, was recognized as one of the ablest and most experienced railway men in America. He had a large staff of expert assistants to advise him. He had the professional advice of the foremost lawyers of the Canadian Bar. Eminent English lawyers advised the directors on the English side of the management. Voluntarily, of their own free will, the Grand Trunk Railway Company of Canada took up the project of the Grand Trunk Pacific line, and for days and weeks, even months, they conducted negotiations which resulted in the signing of the contract. It is the height of folly, then, to pretend that the Grand Trunk Company were compelled by the Canadian Government to enter into the contract.

The soundness of the Canadian Government's position from an Imperial point of view was established all too soon. When the Great War broke out in 1914, transportation across Canada became a matter of the highest Imperial importance. The United States declared neutrality. The Canadian Pacific Railway line, running through the State of Maine, could not be used for the transportation of troops or war materials between East and West. The Grand Trunk Pacific rendered invaluable service to the Empire at this time. The wisdom of the Canadian Government in requiring an all-British line was thus vindicated.

Let the fair-minded Englishman, then, dismiss altogether the groundless statement that the Grand Trunk Company were compelled in this matter.

Another baseless assertion of those who are assaulting the Canadian Government is that the property of the Grand Trunk Company was confiscated by the Canadian Government. The Grand Trunk enterprise was in the hands of its London directors. Again and again, as is shown in the detailed statement, the Canadian Government came to the aid of the Company, to the extent of many millions of dollars. When at last, with all the help they had had, the Grand Trunk Company admitted their inability to carry on their work, the Canadian Government took the property over under the terms of a contract

voluntarily made by the Company's authorized representatives, the board of directors in London. Many Canadians to-day feel that it would have been a wiser policy for the Government of that day to have refused to take over the property and to have left the enterprise to the operation of the courts. Unfortunately, they did not do this. But in their desire to prevent an entire collapse the Government consented to acquire the property on the terms set forth in an agreement. In this case, as in the case of the making of the contract for the construction of the Grand Trunk Pacific, the Grand Trunk directors acted of their own free will. They found themselves at the end of their tether. They asked the Government, which had already helped them so liberally, to assist them further by taking over the property; and the Government consented.

Let the fair-minded Englishman, then, dismiss the groundless statement too often made in the English press that the Canadian Government confiscated the property of the Grand Trunk shareholders.

Another groundless argument of the claimants is that the Canadian Government refused to allow the Grand Trunk to increase its rates. The Canadian Government do not fix the railway rates. In Canada, as in Great Britain, there is a tribunal which determines railway rates. The Grand Trunk, in precisely the same manner as the Canadian Pacific, had to submit to the rulings of the Railway Board.

Running through most of the articles criticizing the action of the Government, there is the assumption that the Government have acquired from the Grand Trunk a profitable enterprise and that the profits are being diverted from the English shareholders to the Treasury of the Canadian Government. This is quite as unfounded as the other claims. The Government have not acquired from the Grand Trunk a profitable enterprise. They acquired a bankrupt concern, which they had helped in many ways and which at last confessed its inability to carry on its work. Every day and every hour since the Grand Trunk property came into the possession of the Government it has been a liability and not an asset, a burden upon and not a benefit to the treasury of Canada. Canada's part in the war has imposed upon her very heavy burdens in the way of interest on an enormously increased public debt. The financial burdens thus created have been increased by the obligations assumed by the Government under its agreement for the acquisition of the Grand Trunk. Canada must bear as cheerfully as possible these obligations. Is it reasonable to expect her to add to her difficulties by taking upon herself burdens as to which she is under no obligation whatever?

The terms on which the Grand Trunk was taken over are clearly set forth in the agreement between the Government and the directors. It is alleged by some of the claimants that the agreement gave some stockholders better terms than to other classes of stockholders. Surely that is not a matter for the Government to consider. The Government were not acting for the stockholders of the Grand Trunk. The Grand Trunk directors had charge of that end of the business. They were the authorized representatives of all the Grand Trunk interests. If, in any respect, the agreement was unsatisfactory

to any of the Grand Trunk people, that is a matter surely between the bondholders or stockholders and their directors. The Government can only be held responsible for the obligations which it assumed under the agreement. Every such obligation has been fulfilled, is being fulfilled and will be fulfilled by the Government of Canada. What more can anybody ask?

The Government and the directors of the Grand Trunk were not able to agree as to the value of certain stocks and bonds. It was then mutually agreed that the matter should be referred to arbitration. It is often said, in criticism of the Government, that the arbitration was a biased one. There is no foundation for such a statement. The Canadian Government chose as their representative Sir Thomas White, a former Minister of Finance. The Grand Trunk Company chose as their representative, ex-President, now Mr. Chief Justice, Taft, of the United States. It was agreed that the Chairman of the Board should be a Judge, and the late Mr. Justice Cassels, of the Exchequer Court of Canada, a gentleman of unquestioned ability and high character, was agreed upon by both sides as Chairman. What fairer arbitration could there be? What folly it is, now that the arbitration is over, to allege that the Board was a biased one!

The arbitrators decided that certain classes of Grand Trunk securities were of no value. The terms of the arbitration provided for an appeal on certain points. These matters were carried to the Judicial Committee of the Privy Council. There again there was a protracted argument, and the whole question was considered. The Judicial Committee confirmed the decision of the arbitrators. Surely the decision of the Board of Arbitrators and the decision of the highest tribunal in the Empire settled the question of value.

In the face of all these facts, how can any reasonable man allege that the Government of Canada have dealt unjustly with the Grand Trunk people?

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The arrangements between the Canadian Government and the Grand Trunk for the construction of the Grand Trunk Pacific, twenty years ago, are well known in Canada. They are not so well known in England.

THE GRAND TRUNK PACIFIC AGREEMENT

To make the project possible of accomplishment, the Government undertook the construction of the more costly Eastern Section, known as the Transcontinental, and the Grand Trunk Pacific Railway Company (whose capital stock was held entirely by the Grand Trunk) undertook to construct the Western Section, from Winnipeg to the Pacific. To enable the Grand Trunk to finance the construction of the Western Section, the Government undertook to guarantee the principal and interest of an issue of bonds for a principal amount equal to 75 per cent of the cost of construction. In addition, the Government undertook to pay the interest on the bonds of the Mountain Section without recourse for the first seven years, and also for the succeeding three years, should the company be unable to do so, and to capitalize the latter charges and grant the company forty years for repayment at 3 per cent.

On the other hand, the Grand Trunk Pacific Company undertook to lease and equip the Eastern Section on completion and operate it for a period of fifty years, the first seven of which were to be free of rental, after which rental was to have been paid at the rate of 3 per cent per annum upon the cost of construction. It was provided that if, after the seven-year period, the net earnings during the succeeding three years were found to be insufficient to pay the rental, the deficiency could be capitalized with the cost of construction. In addition, the company undertook to equip both divisions of the railway, and the first equipment was to be of the value of at least \$20,000,000, of which no less than \$5,000,000 worth was to be assigned to the Eastern Division.

In brief, these were the mutual undertakings that passed. Let us see how these obligations were respected by each of the contracting parties.

LAPSES BY THE COMPANY

When the Grand Trunk Pacific, in 1912, finished construction of its Lake Superior Branch, between the Transcontinental and the head of the lakes—a most important connection of 200 miles, giving it access to the water (and to which undertaking the Dominion Government contributed a cash subsidy of \$1,220,480)—it was agreed to lease from the Transcontinental Commission running rights between Superior Junction and Winnipeg, 259 miles, pending completion and lease of the Eastern Section. By mutual agreement, the rental was left to the arbitrament of Sir William Whyte, former Western General Manager of the Canadian Pacific. He fixed the rental at 2 per cent of the cost of the necessary portion of the road, but the Grand Trunk Pacific failed to take out the agreed lease. Had the Government desired to harass the company it could at that time have shut them off from the head of the lakes.

In 1915, the Company made its second default when it declined to implement its undertaking to lease, equip and operate the Transcontinental between Winnipeg and Moncton, and on the Government fell this unexpected burden. In failing to operate the Transcontinental, the Grand Trunk Pacific cut itself off from its Lake Superior Branch. With the 1912 precedent before it the Government need not have troubled to take out a lease of that Branch, but did so at an annual rental of \$600,000.

In equipping and operating the Transcontinental, the Government did not, as has been stated in some quarters, in any sense absolve the Grand Trunk Pacific from its obligation in that connection, as the lease of the Lake Superior

Branch provided for its own termination if and when the Grand Trunk Pacific took out the lease of the Transcontinental in accordance with its agreement, or when a judgment of any court of competent jurisdiction had been obtained directing the company to do so.

When the Grand Trunk Pacific came to dispose of certain of its bonds, they failed to realize par. The Government had guaranteed principal and interest. This was intended to protect the purchasers. The Grand Trunk Pacific Company set up the plea that it was also meant to secure par to the railway. The point was submitted to friendly suit and, as a result, the Government was obliged to pay out about five million dollars to implement to par bonds already disposed of, and itself purchased the balance of the issue at a cost of \$33,093,333—an entirely unforeseen and unexpected contingency.

When it was found that bond guarantees would not suffice to finance construction the Government again went beyond the strict letter of the agreement and in 1909 advanced \$10,000,000 in cash and in 1913 made a second loan of \$15,000,000. In 1914, there was a further guarantee of securities.

HOW THE GRAND TRUNK TOOK CARE OF ITSELF

As already explained, the Grand Trunk Pacific, early in 1915, had failed to lease and operate the Transcontinental. Later in the year, December 10th, Sir Alfred Smithers informed the Government that the Company was *"at the end of its tether with respect to Grand Trunk Pacific financing,"* and proposed that the Government should take over the Grand Trunk Pacific and branch lines and grant the parent road absolution in return for the surrender to the Government of the capital stock of the Grand Trunk Pacific.

The Government had no reason to question Sir Alfred Smithers' sincerity when he affirmed that the Grand Trunk was at the end of its tether in respect of Grand Trunk Pacific financing, and, while declining to take over the Grand Trunk Pacific and release the Grand Trunk from its obligations therein, it nevertheless granted additional financial aid in 1916, 1917 and 1918—in all \$19,619,736.

Subsequent events failed to justify Sir Alfred Smithers' gloomy statement at the end of 1915. The following year, 1916, proved to be the banner year of the Grand Trunk and the only year in fact when the Grand Trunk could have met its conditional guarantee of Grand Trunk Pacific 4% debentures. How it failed to do so was dealt with in the reply to the Grand Trunk Pacific debenture holders.

However, it was left to Judge Taft, the Grand Trunk's representative on the Board of Arbitration, to show that the Grand Trunk had, as a matter of fact, taken pretty good care of itself in respect of the Grand Trunk Pacific. His summarization of the Grand Trunk Pacific situation throws a curious light upon the actual position at the time—1915—when Sir Alfred Smithers sounded the first strong note of failure:

"During the years 1912, 1913, 1914 and 1915, before the Grand Trunk Pacific opened for business, and while it was still receiving the proceeds of the bonds issued for its construction, it was able to pay interest to the Grand Trunk Railway of Canada upon advances made, and indeed to repay out of the proceeds of those loans, much of the money advanced directly to the Grand Trunk Pacific by the Grand Trunk Railway Company of Canada." (Hon. W. H. Taft, in Grand Trunk Arbitration Award).

ABANDONMENT OF THE GRAND TRUNK PACIFIC

Notwithstanding the assistance to its Pacific subsidiary, the Grand Trunk Railway Company found itself in difficulties in 1918, when efforts to induce the Government to take over the Grand Trunk Pacific were redoubled, and the Government was, at the same time, urged to come to the assistance of the Grand Trunk itself. By that time, the railway situation in Canada had taken unmistakably serious form. The Government had had to take over the Canadian Northern and declined to embark upon a policy of unrestricted financial assistance to the Grand Trunk, or agree to an unconditional release in respect of the latter's Grand Trunk Pacific liabilities while the Grand Trunk Railway itself, as a subsidiary of which the Grand Trunk Pacific was built, remained in independent hands.

This brings the outline of the story down to the negotiations for the acquisition of the capital stock of the Grand Trunk, which have been dealt with at length in the answer to the shareholders. It remains to add that the operation of the Grand Trunk Pacific was abandoned in the midst of these negotiations, and in the following circumstances:

Early in 1919, there remained unpaid, \$951,911.33 of the 1918 appropriation by Parliament of \$7,500,000. In anticipation of receiving this, the company advertised in London the approaching interest payment of March 1st, on the Grand Trunk Pacific 4 per cent debenture stock. Then, on February 25th, Mr. Frank Scott, Vice-President and Treasurer of the company, advised the Minister of Finance that,—

"In consequence of the remittance being coupled with the condition that it is to be used only for operating obligations, *the company will be unable to meet the interest due on the 1st prox.*, and a serious situation will result."

On March 4, Mr. Scott again wrote stating,—

"That in view of the fact that the increased rates applicable to the Grand Trunk Pacific have not been sufficient to meet the increased operating expenses, it will not be possible for that company to continue its operations *when the present funds have been exhausted*, which will be about the 10th instant."

It will be seen that the company stated;—

(1) That as the appropriation from the Government had to be applied to operation, the 4 per cent debenture interest, due March 1st, *could not be met*;

(2) That it was impossible for the railway to be continued in operation *owing to lack of funds*.

Under these circumstances, having no money for operation, and having been distinctly forbidden to use the Government appropriation for interest, it was naturally assumed that there had been default in the March interest payment, of 1919, amounting to more than \$600,000. Subsequent developments make it clear that the March interest was, as a matter of fact, paid by the London management. The Canadian Government is taking steps to ascertain just what money went to pay the interest in question. Its payment postponed possibly awkward questions on the part of the Grand Trunk Pacific 4 per cent debenture holders. Had it not been paid, they would no doubt have earlier awakened to a realization of their position. When the next payment became due, in September, Sir Alfred Smithers was in Canada personally conducting the Grand Trunk negotiations, and on October 9th, the acquisition agreement protecting the Grand Trunk 4 per cent guaranteed and other stocks was reached.

CHARGES AGAINST CANADIAN GOOD FAITH

The erroneous impressions which have been formed abroad respecting the Grand Trunk case, for the most part had their origin in Sir Alfred Smithers' address to the shareholders at the ratification meeting in London on February 19, 1920. Always apprehensive of the shareholders, the Chairman of the Board endeavoured to lay on the Canadian Government entire blame and all responsibility for what had happened the Grand Trunk. In the course of negotiations, affairs took a turn not contemplated by the Drayton-Acworth Commission when it reported on the railway situation in 1917. Discussing the question of the respective rights of the various classes of Grand Trunk shareholders, they said:

"We have come to the conclusion that it is impossible for us to determine these respective rights; that any compensation made to the shareholders for the surrender of their shares must be made, not to them, but to the company as a whole; and that *the directors of the company must assume the responsibility of preparing a scheme of equitable apportionment between the different classes, and procuring the assent and legal authority necessary for bringing the scheme into force.*"

The first offer of the Canadian Government placed that responsibility upon the company as recommended by the Drayton-Acworth Commission. In the end, however, the management secured a great tactical advantage. It induced the Government to include in the protected class with the debentures the 4 per cent guaranteed stock, leaving to arbitration the value, if any, of the preferred and common stock. In that way the management sought to escape responsibility and to transfer it to the Canadian Government.

The arbitration, unfortunately, did nothing to improve the situation, passing to the Government the vexed question of "equitable and moral considerations" (Sir Walter Cassels) and "compassionate consideration" (Sir Thomas White)—after the majority arbitrators had themselves made it clear that there was no equity for the junior stockholders; when the outpouring of moral plus financial support had already severely drained the country's finances, and the question of compassion had become, quite evidently, more applicable to the Canadian taxpayer than the junior shareholders.

Moreover, the arbitration left in certain quarters a confused idea that material evidence had been suppressed and that there had been confiscation of the shareholders' capital. It is contended that "*the Canadian Government*" confiscated the capital advanced by the preference and common shareholders, "*camouflaging the transaction by first depreciating the property.*"

When a railway company finds itself faced with bankruptcy and a government already harassed with railway troubles, and carrying an enormous war burden, comes to the aid of its backers, saving unimpaired a capital investment of \$216,207,141 (debenture and guaranteed stocks) relieving the bondholders of liability in respect of other obligations (bonded indebtedness) amounting to \$81,132,898.66, and pouring into the property over a hundred millions in cash, is it a fair or a decent thing to say that there was confiscation because an agreed Board of Arbitration found no value in junior securities consisting of \$116,583,126 (common stock) on which no dividends had ever been earned, and on \$63,841,201 (preference shares) on which precarious and even questionable dividends had at times been paid?

If, while doing all that, the same Government in effect relieves these investors of a contingent liability in respect of a subsidiary project (the Grand Trunk Pacific) which threatened still greater disaster to the parent company, and made even greater demands upon the public funds, is it not a perversion of the truth to liken that government to the Government of Bolshevik Russia? If the

critical position of the Grand Trunk in respect of the Grand Trunk Pacific be doubted, there is extant President Chamberlain's letter to the Drayton-Acworth Commission (Jan. 30, 1917), in which he states that,—

“Should the operation of the Grand Trunk Pacific be left as it is and the Grand Trunk not relieved from its guarantees, there can be only one answer; it would mean a receivership for the Grand Trunk Company, carrying with it the destruction of its credit for some time to come and the impairment of the credit of the whole Dominion.”

The Chairman of the London Board himself supplies a better term than confiscation even in his denunciatory address to the shareholders. At the conclusion of the ratification meeting, when an honorarium of five years' directors' fees was about to be voted the Board as compensation for loss of office, Sir Alfred Smithers explained that the charge would be borne by the guaranteed and debenture holders—“The people who immediately *are rescued* and receive the first benefit from the agreement.” “Rescue” is surely a more fitting term than “confiscation.”

There was, and can be, therefore, no question of confiscation, though the same ugly word appears frequently in Grand Trunk propaganda; but there was depreciation. That depreciation, however, was not the work of the Canadian Government, but the result of the policy adopted by a non-resident management that subordinated the vital needs of the railway to the seeming necessity to make a showing on the stock market.

At the Arbitration, it was admitted by Grand Trunk counsel that no special fund has been created against depreciation of rolling stock, buildings, plant and other equipment of the Canadian part of the System. By Canadian law, no such fund is required to be maintained. With respect to the American lines forming part of the System, adequate provision against depreciation was required by law to be made, and the Grand Trunk Railway Company of Canada did for its American lines what it had long neglected to do on behalf of its Canadian property.

The result was that at the time of taking over by the Committee of Management in May, 1920, when the financial responsibility of the Canadian Government commenced, the System was confronted with an exceedingly heavy programme of expenditure for deferred maintenance and capital construction. In considerable part, this was not found to be due to war conditions; the arbitrators declare that there had been neglect for ten years or more prior to the arbitration, resulting in a gradual deterioration in physical condition.

In February, 1917, President Chamberlain, of the Grand Trunk, was a witness before the Drayton-Acworth Commission of Inquiry into Canadian Railway and Transportation matters. To this Commission, Mr. Chamberlain stated that the Grand Trunk could not have paid the dividends it had,—

“If we had paid out on the Grand Trunk as much as we ought to have paid for betterments. We have not put in any rails for two years past, of any account.”

On rolling stock, also, Mr. Chamberlain stated that from two to two and a half million should have been set aside each year. This they never had done though “*I have had it up with the Board* and have practically insisted on it being done whenever we get any new rolling stock.” The upshot was, finally, the admission that the Grand Trunk even at that time, 1917, required \$25,000,000 for rolling stock. This the Canadian Government afterwards had to provide.

The capital requirements that a hesitant and reluctant Board failed to supply at the President's urging had finally to be supplied by the Canadian Government. The capital expenditures of the Grand Trunk Railway Company

of Canada (including leased lines) from 1915 to 1919, inclusive, the last *five* years of Grand Trunk control, were \$8,936,702.18. For the years 1920 to 1922, inclusive, *three* years under Government responsibility for finance, capital expenditures were \$33,738,487.62.

THE CHARGE OF POLITICS

For the supposition which persists abroad that politics have had to do with the troubles of the Grand Trunk and Grand Trunk Pacific, the former Chairman of the Grand Trunk Board also is largely responsible.

"I now come to the serious consideration which must in all justice be taken into account when considering the liabilities of the Grand Trunk for the Grand Trunk Pacific. I said in my speech on March 31st last, 'The late Mr. Hays originally had it in his mind to build the Grand Trunk Pacific from North Bay to the Pacific coast. Had this principle been adhered to, not a mile of unnecessary line would have been constructed; but, under strong political pressure, it was decided to extend the line to Quebec, and, finally under further political pressure, to Moncton, the junction point for either the ports of St. John or Halifax.'" (Sir Alfred Smithers to the shareholders, February 19, 1920).

In that statement Sir Alfred Smithers assailed the reputation of two men who were no longer living, and therefore unable to speak for themselves. His statement reflected on the judgment and the business ability of Charles M. Hays, the former Grand Trunk President, who lost his life on the *Titanic* on the very business of the company, and with him, it is apparent, perished the will and the desire which might have won success for the Grand Trunk Pacific enterprise.

For very good reasons, the original proposal of the Grand Trunk did not appeal to Sir Wilfrid Laurier or his Government. They wished to open to colonization the rich hinterland of Ontario, Quebec and New Brunswick, and at the same time to conserve to Canadian seaports the increasing traffic of our own Western Provinces. That was not politics, it was sound statesmanship; and the pressure, if there were such, was not political, but national in character. It was not without reason that Sir Wilfrid Laurier conceived a line from ocean to ocean that was to be *wholly in Canadian territory* and the Grand Trunk Pacific agreed to route such export business of Western Canada as it should command over that railway for clearance at Canadian ports. There was no politics in that. This conservation of Canadian traffic to Canadian ports was and still is the ideal of the Canadian people who, at the polls, twice endorsed the Laurier railway policy.

However, the Canadian Government did not desire this all-Canadian road at the expense of the Grand Trunk, but undertook to build the Eastern section itself from Moncton, New Brunswick, to Winnipeg, Manitoba, 1,806 miles, which it did at an expense of \$168,000,000, and also to bridge the St. Lawrence, at Quebec, which was also done under unforeseen difficulties, at a cost of \$22,640,000.

While this was taking place, and the Grand Trunk Pacific was under construction, Charles M. Hays lost his life under the tragic circumstances already alluded to. After his demise the traditional policy of the Grand Trunk slowly but surely reasserted itself; Grand Trunk Pacific construction suffered, and interest in the project languished. The traditional policy of the Grand Trunk had long been clearly defined. Its Western terminus was at Chicago and its Eastern at Portland, Maine. It encircled the industrial region of Ontario centering at Toronto and served the industrial region of Quebec centering at

Montreal. Its Bay port connections gave it considerable water-borne grain traffic which it shipped out of Montreal during the season of navigation, and from Portland, Maine, during the winter. This explains the necessity of Sir Wilfrid Laurier's policy of an all-Canadian railway and the development of Canadian ports, and demonstrates the wisdom and the vision behind that policy.

The late Charles M. Hays was succeeded by Mr. E. J. Chamberlain as President of the Grand Trunk and Grand Trunk Pacific Railways. On February 14, 1917, Mr. Chamberlain, before the Drayton-Acworth Commission, was asked by Sir Henry Drayton to explain Sir Alfred Smithers' "large order" to be relieved of the Grand Trunk Pacific.

MR. CHAMBERLAIN: "Well, Sir Henry, if you will look at this map, you will see where the Grand Trunk Pacific stretches away off up through the North Country, while the Grand Trunk is away down in this part of the country. It is not a natural connection of the Grand Trunk, is it? It is not only not a connection with the Grand Trunk, but it is not of any benefit to the Grand Trunk.

"In the first place, we are under contract to send all business over this north line, away from the Grand Trunk. The Grand Trunk cannot derive any benefit from it under the contract with the Government.

"In addition to that, the company is bound to put steamers on the Atlantic and steamers on the Pacific, to accomodate all that business, and yet it does not bring one dollar of business to the Grand Trunk."

COMMISSIONER ACWORTH: "Therefore, if the Grand Trunk, as it does at present, operate or control the operation of the Grand Trunk Pacific, were to send traffic through Portland instead of through Halifax it would be a fraud on the agreement?"

MR. CHAMBERLAIN: "Yes. We are bound to go on with all that tremendous outlay and to carry that load, and yet not get one dollar of benefit from it. The Grand Trunk simply cannot carry it."

Clear evidence there of entire reversal of Grand Trunk policy as charted by C. M. Hays. The will-to-do had been replaced by a policy of evasion and even a spirit of repudiation. There was nothing in it for the Grand Trunk. From this waning interest, the Grand Trunk Pacific suffered even during construction, as to which this proof may be offered.

The annual report of the Grand Trunk Pacific Railway for 1919 was made to the Minister of Railways as Receiver, by the Vice-President and General Manager in charge of that road, who had been with the company from its inception, and presumably had the management's entire confidence. That report contained the following admissions:—

"The condition of our track in the fall of 1917 showed that as renewals had practically been neglected up to that time, owing to the impossibility of securing money, we would have to face an abnormal renewal, otherwise the line, which was already in a precarious condition, would be quite unsafe for operation if this work was not taken in hand vigourously, and which work is to be completed during 1920, when the line would be in good shape and safe. We have made our contracts for tie deliveries accordingly, so that if labour is available we shall have a very bad state of affairs remedied before the end of this year, after which we can resume more normal replacement, and at a much lower expenditure."

It will be remembered that the company abandoned the line in March of 1919. The above indicates its condition when abandoned. The work of salvage was at the expense of the Canadian taxpayer.

But the Vice-President and General Manager also cast certain reflections on the character of the construction of the road. He told of bad slides in the Mountain Division especially, necessitating the cleaning out of rivers, new drainage works and—

"Parts of the road rebuilt; in some places necessitating expensive diversions as it was useless to try to keep the line in place where originally constructed. This work has been indeed very expensive and had to be largely chargeable to maintenance, whereas, if properly complete in the first place the expense would have been very light."

The possible effect of these admissions in view of the impending arbitration was afterwards recognized and a second report was forwarded with the foregoing passages altered or entirely deleted.

INVASION OF GRAND TRUNK PACIFIC TERRITORY

Sir Alfred Smithers complained strongly that the Canadian Government had permitted the Canadian Pacific—

"To extend into the new territory the Grand Trunk Pacific was designed, with the consent and desire of the Government, to serve"; that the Canadian Northern "was not only allowed, but actually subsidized, year after year, by the Canadian Government to build lines competing with and paralleling the Grand Trunk Pacific for hundreds of miles."

With equal right, the Canadian Pacific could have urged that the Grand Trunk Pacific was being extended "into territory which the Canadian Pacific Railway was designed, with the consent and desire of the Government to serve." And it could reasonably and truthfully have added that before the Canadian Pacific project could find backers the proposal was placed before the London Grand Trunk Management and rejected. The Grand Trunk could have stood where the Canadian Pacific stands to-day had Grand Trunk faith in the future of Canada been equally strong.

It should be borne in mind that the Canadian Pacific enjoys charter rights to construct branch lines throughout the West, and does not require special legislation for that purpose; further, that the Grand Trunk Pacific agreement contained no covenant on the part of the Government that no new construction would be authorized by Parliament in the territory to be traversed by the Grand Trunk Pacific enterprise.

The complaint concerning Canadian Northern competition is remarkable. The Canadian Northern competes with the Grand Trunk Pacific chiefly from the Rocky Mountains to the head of the Great Lakes. Roughly, this is the territory between Edmonton and Port Arthur. And it is an incontestable fact that the Canadian Northern was within three months of completion between those two points when the first sod was turned on the Grand Trunk Pacific on the Prairie.

Thus, the Grand Trunk Pacific was launched into territory in the Prairie Provinces already occupied and in process of occupation by the Canadian Pacific and the Canadian Northern systems, and further, as Sir Thomas White points out in his Reasons for Award:—

"Before the Grand Trunk Pacific enterprise was entered upon express notice in writing had been given to the Grand Trunk, by the Canadian Northern Railway Company, that it possessed the necessary charter powers and intended to extend its system easterly through Ontario and Quebec and westerly to the Pacific ocean."

However, the construction of the competing lines complained of by Sir Alfred Smithers did not exhaust the railway possibilities of the West, nor meet its rapidly expanding requirements, in proof of which it is only necessary to state that, in addition to building the Grand Trunk Pacific main line as provided in the agreement with the Government, the Grand Trunk Pacific Company entered into an arrangement with the Provincial Governments of Saskatchewan and Alberta and itself constructed 1,022 miles of branch lines in the West. As to this construction, the Dominion Government was not consulted; the Minister of Railways had no say as to the location of the lines, but it is the Dominion to-day that is paying the piper. The bonds of these branch lines were guaranteed by the Provincial Governments. Since the collapse of the Grand Trunk Pacific, the Federal Government has had to come to the rescue of the provinces and, to maintain Canada's credit abroad, is paying annually \$716,408 in interest charges on this branch line construction, the provincial guarantees having amounted to \$16,786,440.

Sir Alfred Smithers, in his reference to competing mileage, claimed that

"This enormous and rapid railway building had the effect of producing a great speculation in real estate in Canada and a great increase in the price of land, all railway materials, and in the cost of labour. The result was an enormous increase in the cost of the National Transcontinental and of the Grand Trunk Pacific over and above the estimates of cost when the projects were introduced into Parliament."

To these boom conditions, the Grand Trunk Pacific contributed as much as any railway and was quite as responsible. They did not affect the price the Grand Trunk Pacific paid the Government for its lands in the West, nor the cost of the Transcontinental right-of-way. And if townsite lands increased in value that surely was to the advantage of the owner of the townsites—the Grand Trunk Pacific. It is difficult to understand what point Sir Alfred Smithers sought to make. In addition to the main line between Winnipeg and Prince Rupert, the Grand Trunk Pacific built the Western branch lines already referred to, and the Lake Superior Branch from the Transcontinental to the head of the lakes, which the Canadian Government afterwards had to lease and operate at an annual rental charge of \$600,000, which represents the interest on the bonds. The increased cost of construction did not prevent the Grand Trunk Pacific Company undertaking this additional 1,200 miles of railway. And as to the Transcontinental—the best constructed colonization railway the world over—the cost was admittedly and unexpectedly heavy, but it was borne by the Government. As a matter of fact, the cost might easily have been greater. Of the 21 contracts advertised for the construction of the Transcontinental, the Grand Trunk Pacific Company tendered on 14. It was awarded the contract in four instances and failed to secure the contract in ten instances because their prices were higher than those of the successful tenderers.

➡➡➡ THE CHARGE THAT EVIDENCE WAS SUPPRESSED

This belief is largely founded on the appeal made by the Grand Trunk on a point of law to the Judicial Committee of the Imperial Privy Council. Those who entertain the belief that material evidence favourable to the Grand Trunk was suppressed will doubtless be surprised to learn that the fullest evidence as to the physical condition of the property was presented by each side. Not only was all evidence as to the physical condition of the system admitted and carefully considered, but the Board of Arbitration went very fully into the question of proper maintenance, the advantages or disadvantages of the location of the company's lines, volume of business, traffic rates, operating costs, fixed charges and contingent liabilities. 113

713. The misconception as to suppressed evidence arose through a majority of the Board having held that for the purpose of the inquiry in question evidence as to reproduction or replacement cost was not essential or relevant. The majority arbitrators held that what was essential, relevant and useful was evidence as to the earning power, actual and potential, and this evidence was freely admitted. Evidence as to reproduction cost might have been useful in an enquiry to establish sales value, or if the point to be arbitrated had been the sum to be paid for the assets of the company, instead of two certain classes of stock. But there was no question of disposal of the road or any of its assets and no such policy in contemplation. Benefit to the preference and common shareholders could only come through dividends from net earnings, or from the sale of the assets of the company for a sum in excess of its liabilities. Any purchaser considering the buying of such assets would have had in mind the annual return from his purchase, hence the majority arbitrators held that net earnings, actual and potential, was the essential factor to be determined.

The Company contended strongly for the consideration of reproduction cost, even going so far as to argue that it should be taken into account without consideration of depreciation. In view of the depreciated physical condition of the property, already referred to, it was not to be wondered at that the proffered evidence was not taken into consideration.

However, the point being a legal one, and the Grand Trunk having the right of appeal on a question of law to the Judicial Committee of Privy Council, the shareholders sought and were accorded that privilege. The appeal was heard in due course and dismissed, the Judicial Committee of Privy Council confirming in every respect the position taken by the majority arbitrators. The Judgment pointed out that:—

"The arbitrators arrived at a unanimous conclusion that the value of the stock was to be ascertained on a basis of the net earning capacity, both actual and potential, which should then be capitalized. The basis of the valuation, so adopted, *which was certainly not unfavourable to the company, and was accepted by all persons concerned*, was not and could not be impeached in the present appeal. It must, therefore, be taken as a governing principle upon which the arbitration was to proceed, and the question is whether, having regard to this principle, evidence as to the physical assets was material and admissible.

"The contention that evidence as to selling value should have been received is, in their Lordships' opinion, contrary to the basis of valuation adopted by the arbitrators, and, indeed, to the whole meaning and effect of the agreement of transfer. The transfer was the transfer of a going concern, which the holders of the preference and common stock had no power to sell, either piecemeal or as a whole. Such sale was forbidden by statutes under which the company was operating, and if an attempt had been made by the stockholders to bring it about, the holders of debentures and guaranteed stock would have been entitled to intervene and forbid it."

In view of this judgment by the eminent jurists of the Imperial Privy Council, the highest court in the British Empire, it is to be hoped that no more may be heard of the unwarranted statement that *the Canadian Government suppressed evidence favourable to the preference and common shareholders.*

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WAGE INCREASES AND RATES

"I knew there were influential men in Canada who thought the policy that the Government should pursue was to let us alone, and that the weaker we became the easier we could be dealt with. They knew we were being forced *by the Government* to carry on our work under impossible conditions—conditions over which we had absolutely no control. (Cries of "Shame"). What were those conditions? That we should meet every order of the Canadian Railway War Board to increase wages by immediate compliance, notwithstanding that *no increase in rates* to meet the increased expenses was allowed." (Sir Alfred Smithers to the Grand Trunk shareholders).

Railways in Canada are to a great extent international in character. There is a large interchange of traffic with the United States and many employees work in both countries. Their labour organizations are international in scope and affiliation and wage scales in both countries, as also freight and passenger rates, have been relatively the same.

During and following the war the cost of living increased in both countries in corresponding degree. The American Government granted certain wage increases to meet increased living costs, and certain rate increases to provide as far as possible the necessary revenues. When the American railwaymen received these increased wages (at a time when the lines were temporarily under Government control) Canadian railway labour organizations similarly demanded the application of the McAdoo Award. It thus developed that Grand Trunk employees on the American side of the boundary line were receiving wages greatly in excess of Grand Trunk employees on the Canadian side. There was threat of strike, not alone on the Grand Trunk, but on all the larger Canadian railways. Their managers (including the Grand Trunk) approached the Chairman of the Board of Railway Commissioners, Sir Henry Drayton. They were extremely desirous that no strike should occur, and that there should be no interruption to the country's War effort, and Sir Henry Drayton advised the Government (July 15, 1918) that "*in the opinion of the railway managers* the Canadian lines ought to adopt the McAdoo Award and any extensions which may from time to time be made in American territory."

The Canadian Government dealt with this unusual situation by recourse to the War Measures Act under authority of which there was passed an Order-in-Council adopting on Canadian Government Railways the McAdoo scale of wages; and recommending that privately-owned railways grant similar advances. To enable the railways to meet these wage increases the Government, again invoking the War Measures Act, authorized the Board of Railway Commissioners to grant increases in freight rates to Canadian carriers similar to those granted American carriers by the Interstate Commerce Commission. This also was done, as will presently be shown.

Sir Alfred Smithers referred to the Canadian Railway War Board. Possibly he may not have known that the railways of Canada (again including the Grand Trunk) asked, in October, 1917, for the establishment of a committee of chief executive officers to be known as the Committee on War and National Defence, to deal with and co-ordinate railway activities during the War. This was afterwards known as the Canadian Railway War Board. After the threat of strike referred to by the Chairman of the Board of Railway Commissioners, and ten days after the passage of the Order-in-Council which avoided the strike, it was arranged at a conference between railway executives and the heads of the six railway labour organizations, called by the Minister of Labour, that an organization should be established to be known as Board of Adjustment No. 1, whose

decisions in disputes as to working conditions, wage schedules and agreements should be final. To this arrangement also the Grand Trunk was a party and its employees benefiting participants. The Board did such good work in determining differences, including personal grievances and controversies arising out of interpretation of wage schedules, that the agreement was renewed in 1921 with the Railway Association of Canada replacing the Railway War Board. To impute to the Government malicious intention in the decisions of the Canadian Railway War Board and Board of Adjustment No. 1, the latter jointly composed of high executives of the railways (including the Grand Trunk) was and is a misrepresentation of the facts that it is charitable to suppose arose out of non-resident appreciation of actual conditions.

REPEATED RATE INCREASES

The charge that the Canadian Government refused to allow the Grand Trunk to increase its rates is equally unjustified. During the war it was necessary, as already stated, for the Government to take cognizance of wage and rate increases, but the duty of "fixing, determining and enforcing just and reasonable rates" rests with the Board of Railway Commissioners, an independent tribunal which endeavours to deal justly as between the railways and the shipping and travelling public.

The Grand Trunk is a purely eastern Canadian (and American) road. Rates in its territory are governed by inland water competition and rates admittedly were low when war came. But because of these lower rates in Eastern Canada proportionately greater increases were granted in that territory. That scarcely betokened a desire to cripple the Grand Trunk and force its transfer.

Shareholders who have heretofore depended exclusively on Grand Trunk sources of information will doubtless be surprised to learn of the efforts actually made to have railway rates in Canada keep pace with increased working costs. In brief, these rate increases were as follows:—

1916—Western Rates case:

Five per cent increase in tariffs of Eastern roads. Did not apply in West where rates were already higher.

1918—March 15—15 per cent increase (freight and passenger) to enable railways to equalize increased cost of fuel and other supplies. (The Grand Trunk enjoyed full benefit of this increase. The Canadian Pacific by Order in Council under the War Measures Act was obliged to submit to special taxation of its increased earnings).

1918—August 12—25 per cent (freight only) designed to offset the McAdoo Award wage increase.

1920—Sept. 13—Increase of 40 per cent in the East and 35 per cent in the West on freight and 20 per cent on passenger rates; designed to offset the wage increases under what was known as the Chicago Award of May 1, 1920.

These increases were granted by the Board of Railway Commissioners. To enable the Board to raise rates in Western Canada beyond what is known as the Crowsnest scale, the Canadian Parliament set aside for a three-year period a statute which guaranteed to Western Canada in perpetuity a lower scale of rates because of a cash subsidy to the Canadian Pacific to build the Crowsnest Branch when the Canadian Pacific was the only western Canadian railway. This suspension of the Crowsnest scale was greatly to the advantage of the Western railways, including the Grand Trunk Pacific, and branch lines. It did not indicate any desire on the part of the Government to withhold such relief as was within its power, while the acquiescence of the people of Western Canada

in the temporary loss of an advantageous rate, guaranteed them by statute, was of itself indicative of Canadian public sympathy with the general railway situation.

In answer to a question at the ratification meeting of the shareholders, Sir Alfred Smithers stated that *the Canadian Government* would not increase the rates at that time but "when they were in possession of the Grand Trunk Railway—well, stockholders must wait and see what would happen. He had his suspicions."

The Canadian Government did not starve the Grand Trunk in order to take it over and then increase rates. Since actual possession and complete control of the Grand Trunk was secured in May, 1921, there has been steady downward revision of rates. To-day they stand approximately as follows, as compared with the basis of September 13, 1920:—

In Western Canada:

Coal (except anthracite), increase of September 13, 1920, entirely eliminated;

So-called "basic" commodities, 16 $\frac{2}{3}$ per cent decrease;

Other freight traffic (except grain and grain products), 11 per cent decrease;

On grain the lower statutory Crowsnest rate has again been accorded the farmers of Western Canada as a measure of relief following the rapid deflation of prices of agricultural commodities.

In Eastern Canada:

Coal (except anthracite), increase of September 13, 1920, entirely eliminated;

So-called "basic" commodities, 16 $\frac{2}{3}$ per cent decrease;

Other freight traffic, 11 per cent decrease.

Passenger rates, both in Eastern and Western Canada, now stand as of March 15, 1918—15 per cent above pre-war level, the increase of September, 1920, being eliminated.

A BIASED ARBITRATION BOARD

A regrettable feature of Grand Trunk criticism is the contention that the Canadian members of the Board of Arbitration were biased because they were Canadians. One of these, the late Sir Walter Cassels, Judge of the Exchequer Court, had spent a long life in the determination of questions involving property values and in the interpretation of agreements. No man in Canada was better fitted by temperament, by legal training and by judicial experience to act as Chairman of the Board, and he was named as such in the agreement and by the legislation ratifying the agreement. His name was submitted to the Grand Trunk Management when the legislation was being drafted, and his appointment was acquiesced in by the Grand Trunk.

The other two arbitrators were to be selected, one by the Grand Trunk and one by the Canadian Government. The Grand Trunk, which was at liberty to choose a British arbitrator if it had ever felt that nationality was a matter to be considered, chose Hon. W. H. Taft, former President of the United States, not because of any special railway qualifications or experience, but doubtless because of his high legal attainments, his acknowledged capacity, and the fact that much of the Grand Trunk System was American.

The Canadian Government selected as third arbitrator Sir Thomas White, former Minister of Finance, for long periods during the War Acting Prime Minister, and a man whose legal attainments and financial experience qualified him for the very highest honours in the gift of his country had he chosen to

decrease
1920

remain in public life. His selection as third arbitrator was not without knowledge of the Grand Trunk Management, which offered no objection. To suggest that either Sir Thomas White or Sir Walter Cassels would be unfairly influenced against shareholders because they were non-resident, and British rather than Canadian, is a suggestion fit only to be laughed to scorn. As a matter of fact the Canadian arbitrators were less severe in their references to the actions of the late management than was the American member and it was left to Mr. Taft, the Grand Trunk's own nominee, to use such expressions concerning the London Board as:—

"In 1913, the operating revenues were improperly increased apparently in order to justify the declaration of a dividend on the three series of preferred stocks, a full dividend on the first and second and half on the third."

"Instead of being in bankruptcy or near it at that time (1917) the Grand Trunk Railway was more prosperous than ever in its history, but the directors were trying to conceal it."

"In 1919 and 1920, when the sale of the road to the Government was being faced as the best course, *manipulations of the accounts* was directed to making the financial condition of the road seem better than it was."

"*This dealing with accounts* by the London Management admits of no defence, but it cannot be permitted to prejudice the interests of the shareholders in this case. The London Management, in *these misleading statements* was attempting to induce action on the part of the Government, on the one hand, and to avoid complaint on the part of the shareholders, on the other."

"The local Canadian officers, except the president and those immediately charged with the matter of accounts, were not privy to this action. This is not a proceeding to *penalize managers or directors of a company for false statements*. We must refer to it, however, in order to understand the necessity of re-stating the accounts and to reach the truth as to the real earnings *during the ten years from 1910 to 1920.*"

Enough has been quoted to show that the most unsparing critic of the London Management was the Grand Trunk's own nominee on the Board of Arbitration. All of which goes to suggest that the Board was impartial rather than biased, and it is greatly to be regretted that deliberate attempts should be made to impair Canada's credit by those whose peculiar business methods are chiefly responsible for the unfortunate position of the shareholders. However, the attack on Canada's credit is not altogether unexpected as President Chamberlain warned the Drayton-Acworth Commission against any course of action which

"Would not only injure the Grand Trunk Company's credit, but might induce a spirit of hostile criticism on the part of investors in Grand Trunk securities in London and New York *that might easily react upon the credit of the country.*"

The credit of the country was ever pressed to the fore in the conduct of the Grand Trunk case. It was the "big stick" which President Chamberlain did not hesitate to shake and which has since been very much in evidence abroad.

ALLEGED PARTIALITY TO CANADIAN NORTHERN

It is claimed that the Canadian Northern, because it was a Canadian company was accorded better treatment than the Grand Trunk and Grand Trunk Pacific. The statement does not bear close examination.

The funded debt of the Canadian Northern consists largely of sterling flotations. If, as argued, the Canadian Northern was unduly favoured, these English investors received the benefit. It is not denied that the Canadian Northern made unprecedented demands upon the Canadian Treasury, but, as was pointed out in reply to the Grand Trunk shareholders, the payment of ten millions for Canadian Northern common stock was on the recommendation of a Board of Arbitration and not on an appeal for compassionate consideration. But mile for mile the immense sums paid out on behalf of the Canadian Northern do not compare unfavourably with what the Grand Trunk group—the Grand Trunk, the Grand Trunk Pacific and the Transcontinental—have cost the Dominion.

Up to December 31st last the Canadian Northern had received as loans, or cash subsidies, or stock purchase, the sum of \$413,286,553 and guarantees of \$162,312,913.

To the same date, the Grand Trunk had required of the Canadian Treasury a cash outlay of \$133,768,133, and the Grand Trunk Pacific \$150,903,439—a total of \$284,671,573. In addition, the Dominion had given guarantees, on Grand Trunk account, amounting to \$265,950,141, and on Grand Trunk Pacific account, amounting to \$43,432,849, a total of \$309,382,989.

But if there be added the cost of the Transcontinental (required to make the Grand Trunk Pacific project a transcontinental line)—\$168,409,018 and Transcontinental operating deficits which the Dominion Government have had to meet, amounting to \$15,246,771—a total of \$183,655,789—it will be seen that the total paid by Canada on account of the Grand Trunk group is \$468,327,361. To this might very well be added the cost of the Quebec bridge, \$22,640,000—a grand total of \$490,967,361.

At the foot of the list, from the standpoint of cash assistance, stands the Canadian Pacific, which had \$26,538,307 in cash subsidies. In addition, there was turned over to the company constructed and partially constructed mileage which had cost the Government \$62,789,776—a total cash outlay of \$89,328,083. Of course the chief benefit the Canadian Pacific received was from its land subsidies amounting to 25,735,703 acres. But only the successful operation of the railway created value in the land.

The cost of the Canadian Northern and Grand Trunk groups to the Dominion Treasury may be thus contrasted:

	Canadian Northern System	Grand Trunk Group
Mileage..	9,995	** 10,016
Loans, cash subsidies, cost of construction, etc..	\$413,286,553	\$490,967,361
*Guarantees..	162,312,914	309,382,989
	<hr/> \$575,599,467	<hr/> \$800,350,350

FOOT NOTE:

*The guarantees are Dominion guarantees only and do not include Provincial guarantees amounting to almost a hundred millions, interest charges on which are being paid by the Dominion Government.

**Grand Trunk, including Central Vermont, 5,308 miles, Grand Trunk Pacific, 2,710, Transcontinental (Eastern Section of G. T. Pacific), 1,998.

“The Canadian Northern has been economically constructed and moderately capitalized. The same cannot be said either of the Grand Trunk or Grand Trunk Pacific.”—Drayton-Acworth report.

CANADA'S HEAVY CONTRIBUTION

The capitalization of all Canadian railways is officially placed at \$2,164,-687,636. To this may be added investments not represented by capitalization, such as \$445,271,574.87 expended by the Dominion on Canadian Government Railways and the Quebec Bridge, and \$25,230,003 spent on railways by Provincial Governments, a total of \$470,501,577.87. This added to the capitalization gives roughly an investment of \$2,635,189,213.

Towards this investment, the Dominion of Canada—irrespective of provincial and municipal aid,—with a population of less than nine millions, has contributed in cash either by way of subsidies, loans, stock or bond purchases, capital expenditure, or deficits \$1,206,939,899. Regarded as an investment, there should be added \$80,125,083 in unpaid interest which is being carried against former privately-owned railways in the hope that some day the Dominion may receive consideration in the matter of interest. To this total investment of \$1,287,064,982.57 of Canadian public moneys may be added the \$74,550,000 voted on railway account at the recent session of Parliament, which swells Canada's provision toward rail transport to \$1,361,614,982.57. Canada surely has been a "good provider" where her railways are concerned. And Canada's railways do not by any means tell the entire story. Canada has had to find, as well, \$200,000,000 on canal account, which has added to the general transportation burden of the Dominion.

In addition to the \$1,361,614,982.57, it has been necessary to find for the railways, the Dominion stands committed to the guarantee of railway stocks and securities amounting to \$471,695,903.50. These guarantees, at one time considered a remote contingent liability, have become an active charge, and in every instance the guarantee of the Dominion Government has been honoured. In addition to the guarantees of the Dominion Government, certain provinces guaranteed Canadian Northern and Grand Trunk Pacific branch line and other bonds, totalling \$96,542,789.59. On the Dominion Government has fallen, with proprietorship, the privilege of paying the unearned interest on these provincially-guaranteed bonds.

Including fixed charges the total deficits on Canadian National Railways (including the Grand Trunk) were \$74,930,839 in 1920, \$72,662,278 in 1921, and \$60,251,845 in 1922. More than a third of these deficits were *interest charges due the Canadian Government*, which has had to provide the money to pay the interest charges due the public. But these deficits alone do not represent the amount of money Canada has had to provide on railway account at each session of Parliament in recent years. There are heavy capital charges as well, so that the total voted on railway account in 1921 was \$179,065,760; in 1922, \$97,220,000; and at the recent 1923 session, \$74,550,000. These immense sums cover operating deficits, betterments, certain interest charges and maturing obligations, but again let it be stated that while the votes provide interest charges due the public, they made *no provision for interest charges due the Canadian Government*.

CANADA HAS KEPT FAITH

At such a time, and under such circumstances, the Canadian taxpayer is asked to make a compassionate grant to Grand Trunk junior stockholders to an amount unofficially placed at \$25,000,000, roughly a ratio of thirty, twenty and ten for the first and second preference, third preference and common shareholders, respectively. In the face of the record it is difficult to understand the argument put forth on behalf of the Grand Trunk, that Canada has dealt meanly with those who invested in Canadian railway enterprises. No country in the world has been called upon to make such financial and material

sacrifices in the interests of transportation as Canada. Difficult conditions were laid upon her by the inescapable facts of geography, and by national aims and aspirations that looked forward to a country united by material as well as sentimental ties. Every dollar of her obligations in respect to transportation is being met by her limited population who may well be excused if they find themselves unable longer to go outside the bond, so far as railway charges are concerned.

Stress has been laid on the fact that the Grand Trunk was Canada's pioneer railway and, as such, entitled to particular consideration. The Grand Trunk unfortunately has never been associated with the real development of Canada. Absentee management always was hesitant, reluctant and over-cautious. In its inception, the Grand Trunk was satisfied to duplicate a transport system already provided by nature in Canada's internal waterways. It was an international railway with trans-Atlantic direction and control. When it had its great opportunity, it failed to associate itself with the development of federalized Canada, and absentee management has itself to blame that the Canadian Pacific and not the Grand Trunk is to-day identified as the essentially Canadian road.

As Sir Thomas White put it:—

“The agreement for the construction of the Grand Trunk Pacific Railway has been an unfortunate one for the Government and the Grand Trunk, but it was, nevertheless, an agreement deliberately entered into by the Grand Trunk in the expectation of gain from a successful project.”

Always there was an alternative. It was open to the Grand Trunk to say “No” with respect to the Grand Trunk Pacific arrangement and, later, to the Grand Trunk acquisition agreement. From the one there was expectation of gain, and from the other hope of rescue. Because these aims were not entirely realized, “force majeure” is now alleged, and the claim put forward that the Canadian Government, which means the Canadian people, must make good all Grand Trunk losses—surely a preposterous claim. It is true that the war played no small part in the difficulties of Canadian railway promoters. But nothing can be pleaded for the Grand Trunk on war account that cannot be pleaded, a thousandfold for the Dominion as a whole. Through it all, the Dominion has kept faith with capital and Canada has honoured, and will continue to honour, every dollar of her obligations.

